

Store Front Lending

2012 New Mexico Stats: Loans over 175% APR

Total dollars lent :	\$216 Million
Total Interest and fees:	\$99 Million
Average APR:	350%
Total Loans	396,000
Total Stores (2013)	656
Out of state Ownership	80% + Nat'l Chains

Typical Storefront Loan Consumer

- Low Income and Poor
- Single Moms
- Veterans
- Renters
- People of Color/ Native Americans

Average Payday Loan 2012

(Less than 15% of NM Small loan volume)

- \$360 Borrowed
- 2-4 week term
- 6.6 loans per borrower – 140 days credit
- Total repayment cost \$800
- Average APR 330%

Popular Southern New Mexico Products

20 Week Installment Loan (example)

Borrow	\$300
10 Bi-weekly Payments	\$ 60
Total cost to pay off	\$600

Interest Only Car Title Loan (example)

Borrow	\$1,000
Monthly Interest payment	\$ 250 (continues indefinitely)
Pay principal as cash is available	

Govt. support payments such as disability , social security, & TANF are treated as income to pay off these loans. Lots of Govt. assistance money goes to paying interest & fees on these loans including EITC tax refund money.

How Big Is the Issue?

- Raising the Minimum Wage from \$7.50 to \$9.50 would put **\$100 million** in New Mexico's low income pockets annually.
- Capping Loan Interest and Fees at 36% would keep at least **\$89 million** in New Mexico's low income pockets annually while adding no expenses to businesses.

Storefront Operations are the Dominant Lenders in Indian Country

- 60% of Native Americans use storefront or pawnshop financing.
- 46 loan shops in Gallup - 1 per 500 people
- 55 loan shops in Farmington – 1 per 840 people

NM Law Encourages High Cost Lending

- \$1,500 fee, \$30,000 in capital and a reasonably clean criminal record are all that is required for a small loan license.

- Only two license applications have been denied since 2007.

- Lenders are allowed to charge any interest rate, over any length of time on all but the narrowly defined category of payday loans. There are no restrictions on security for loans or other terms.

- The NM State lending license on the wall creates the impression that loan products are state approved.

What Can Government Do?

- **Enact interest and fee caps.** This has been the most effective form of regulation. **Speed limits protect drivers, catch limits protect fisheries, we need interest limits to protect borrowers.**

18 States and the US Military have interest and fee caps.

Arkansas 17%

New York 25%

Arizona 25-36%

Montana 36%

US Armed Forces 36%

- **Support lower cost credit alternatives including CDFI's.** A few million dollars from the state investment fund could help get significant statewide pilot efforts off the ground. (NC, NY, CT, Progress Financial)

Where Does the Public Stand?

- Unaware of the size of the Problem
- 86% Support Interest & Fee Caps of 36%
- Organizational Support from
 - Catholic Bishops/Catholic Charities
 - AARP
 - AFSME / Unions
 - Navajo Human Rights Commission
 - Every major legal service, social service, and credit counseling non-profit in New Mexico not restricted from taking a position.

Myths About Storefront Loans

Myth:

Storefront loans provide useful “emergency” money for low income folks.

Fact:

-Independent studies show 70% of these loans are used for discretionary purchases or regular living expenses.

-Independent studies show high cost storefront debt creates otherwise avoidable financial emergencies.

-Native Americans spending time and money travelling long distances to get to a small loan store often feel pressure to take whatever is offered.

Myths About Storefront Loans

Myth:

-Expensive storefront loans are the only viable way to finance low income borrowers.

Fact:

-Surveys show over 80% of borrowers would cut back on expenses or borrow from family or friends if high cost loans were not available.

-North Carolina borrowers say they are better off by a 2 to 1 margin since payday loans were banned there.

-Interest rate cap states such as New York, North Carolina and Connecticut have all developed alternative small loan products with APR's under 20%.

-There is no evidence of decreased credit availability in states with interest & fee caps.

Myths About Storefront Loans

Myth:

Storefront loans are affordable. People repay on time.

Fact:

-Loan payments often range from 25-40% of the borrower's income.

-Most borrowers do repay on time. By refinancing with another high cost loan.

Myths About Storefront Loans

Myth:

Payday and installment loans help consumers avoid expensive bank overdrafts.

Fact:

-28% of payday borrowers nationally face overdraft charges created by automatic bank account withdrawals by lenders.

-Independent surveys show many other borrowers wind up paying both loan and overdraft fees.

Myths About Storefront Loans

Myth:

High interest storefront lenders create jobs and stimulate the economy.

Fact:

-Independent studies show the economy loses about 24 cents for every dollar of interest and fees charged on payday loans.

-Losses are greater in New Mexico since most loan profits go to out of state operators.

-Money that goes to interest and fees would create more jobs if spent with local merchants.

Myths About Storefront Loans

Myth:

APR is a misleading cost measure for small short term loans.

Fact:

-Less than 15% of storefront loans in New Mexico are short term 2-4 week payday loans. Many, if not most, are 20 weeks and more.

-Since borrowers repeatedly use these products, small loan debt is similar to revolving credit card debt. APR is an appropriate measure for any form of revolving debt.

Myths About Storefront Loans

Myth:

Triple digit APR loans must be a good product because New Mexico receives so few complaints about them.

Fact:

- Loan store consumers are not knowledgeable about credit products and are not aware they are being ripped off.*
- Borrowers do not know there is a place to lodge a complaint.*

Recommendations

-Endorse legislation to enact across the board interest and fee caps of 36% on non-bank loans in New Mexico. This is the most effective and least bureaucratic form of regulation.

Recommended Statute

- 1. 36% inflation indexed cap on all loan products**
- 2. All contracts over 36% are void**
- 3. Signage informing borrowers of the cap in all loan stores.**

-Support efforts to create a consumer finance CDFI similar to various credit union models or Progress Financial. Ask the SIC to invest in this CDFI and invite existing lenders to help design.